

**REPORT OF THE AUDIT OF THE
SCOTT COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2005**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE SCOTT COUNTY FISCAL COURT

June 30, 2005

The Auditor of Public Accounts has completed the audit of the Scott County Fiscal Court for fiscal year ended June 30, 2005.

We have issued unqualified opinions, based on our audit, on the governmental activities, business-type activities, each major fund, and aggregate remaining fund information financial statements of Scott County, Kentucky.

Financial Condition:

The fiscal court had net assets of \$59,092,774 as of June 30, 2005. The fiscal court had unrestricted net assets of \$24,019,550 in its governmental activities as of June 30, 2005, with total net assets of \$59,086,303. In its business-type activities, total net cash and cash equivalents were \$6,471 with total net assets of \$6,471. The fiscal court had total debt principal as of June 30, 2005 of \$1,985,000 with \$360,000 due within the next year.

Deposits:

The fiscal court had \$7,450 in deposits that were uninsured and uncollateralized by bank securities or bonds as of June 30, 2005.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable George Lusby, Scott County Judge/Executive
Members of the Scott County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Scott County, Kentucky, as of and for the year ended June 30, 2005, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Scott County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Scott County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Scott County, Kentucky, as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

The management's discussion and analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable George Lusby, Scott County Judge/Executive
Members of the Scott County Fiscal Court

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Scott County, Kentucky's basic financial statements. The accompanying supplementary information, combining fund financial statements, are presented for additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and is not a required part of the basic financial statements. The combining fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation of the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated December 22, 2005, on our consideration of Scott County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a stylized, flowing script.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
December 22, 2005

SCOTT COUNTY OFFICIALS

For The Year Ended June 30, 2005

Fiscal Court Members:

George Lusby	County Judge/Executive
Anna Isaacs	Magistrate
Gary Allen Perry	Magistrate
Jim McClanahan	Magistrate
Bobby Rankin	Magistrate
John T. Hoffman	Magistrate
Tom Prather	Magistrate
Jerry Bruin	Magistrate

Other Elected Officials:

Clay McKnight	County Attorney
Larry Covington	Jailer
Donna Perry	County Clerk
Martha Mitchell	Circuit Court Clerk
Bobby Hammons	Sheriff
Jane Rankin	Property Valuation Administrator
John Goble	Coroner

Appointed Personnel:

Jane Lucas	County Treasurer
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Court House
Built 1877

George Lusby

Scott County Judge/Executive
P.O. Box 973
Court House, Main Street
Georgetown, Kentucky 40324

Telephone
(502) 863-7850
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(502) 863-7852

Scott County Fiscal Court Management's Discussion and Analysis June 30, 2005

The financial management of Scott County, Kentucky offers readers of Scott County's financial statements this narrative overview and analysis of the financial activities of Scott County for the fiscal year ended June 30, 2005. We encourage readers to consider the information presented here in conjunction with other information that we have furnished in our letter of transmission and the notes to the financial statements.

Financial Highlights

- Scott County collected \$26,782,138 in General Fund revenue and carried forward a balance of \$20,297,326. Unreserved fund balance for the General Fund is \$22,481,219. Expenditures in the General Fund totaled \$20,028,467 plus transfers of \$4,569,778 to the Jail Fund, Road Fund, and Public Properties Corporation Fund. Scott County showed a net increase in the General Fund of \$2,183,893. These calculations, rounded to the nearest dollar, leave a carry over balance of \$22,481,219 to begin the new fiscal year.
- Although the county showed a net fund balance increase of \$2,183,893 in the General Fund, it should be pointed out that a change in the method of collecting net profit taxes lead to this large increase. Beginning with the 2004-2005 fiscal year, large employers were required to pay their estimated net profit taxes in advance rather than wait until the end of the year. This meant the county collected the previous year's net profit taxes in July and the projected net profit taxes for the upcoming year in advance. Thus, the county ended up collecting what would be two years of net profit taxes in the same fiscal year. This change resulted in the county collecting \$7,737,362 in net profit taxes as compared to \$4,037,002 in the prior year. This change accounted for at least \$3,000,000 in additional revenue during the year. This is a one time event and had this not been a factor, the county may have gone into its reserve funds rather than having the surplus to carry over.
- The bright spots in the county's financial outlook are that revenues continue to increase as more businesses locate here plus the additional revenue generated from the increased number of houses and the increased value of property. Payroll tax revenue increased to \$10,831,473 as compared to \$9,484,824 in the prior year. Also, many of the capital improvement projects will be less in the upcoming years as we complete the necessary expanding of emergency buildings.

Overview of the Financial Statements

This management discussion and analysis is intended to serve as an introduction to Scott County's basic financial statements. Scott County's basic financial statements are comprised of three components: 1) government wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Scott County Fiscal Court
Management's Discussion and Analysis
June 30, 2005
(Continued)**

Overview of the Financial Statements. (Continued)

GASB 34 requires management to include certain comparison schedules when they are available. These schedules include prior and current comparisons of general revenues by major source, and program expenses by function.

Government-wide Financial Statements. The *government-wide financial statements* are designed to provide readers with a broad overview of Scott County's finances, in a manner similar to a private-sector business.

The *Statement of Net Assets* presents information on all of Scott County's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of Scott County is improving or deteriorating.

The *Statement of Activities* presents information showing how the government's net assets changed during the fiscal year. All changes in net assets are reported on a modified cash basis of accounting. Basis of accounting is a reference to when financial events are recorded, such as the timing for recognizing revenues, expenses, and related assets and liabilities.

Under the county's modified cash basis of accounting, revenues and expenses and related assets and liabilities are recorded when they result from a cash transaction, except for the recording of depreciation expenses on capital assets in the government-wide financial statements for all activities and in the fund financial statements for the proprietary fund financial statements.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as amounts billed for services provided, but not collected) and accounts payable (expenses for goods and services received but not paid) or compensated absences are not recorded.

Both of the government-wide financial statements distinguish functions of the county that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). Scott County's governmental activities include general governmental, protection to persons and property, roads, recreation, and social services. The county has one business type activity - the operation of a jail canteen.

The government-wide financial statements include not only Scott County itself (known as the primary government), but also legally separate entities, which have a significant operational or financial relationship with the county. Scott County has one such entity, the Public Properties Detention Center Corporation. It is known as a blended component unit.

Fund Financial Statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Scott County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of Scott County can be divided into three broad categories: *governmental funds*, *proprietary funds*, and *fiduciary funds*.

**Scott County Fiscal Court
Management's Discussion and Analysis
June 30, 2005
(Continued)**

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

Scott County maintains seven individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the government fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Road Fund, Jail Fund, and Public Properties Corporation Fund, all of which are considered major funds by the County. The Local Government Economic Assistance (LGEA) Fund, McCracken Trust Fund, and Hospital Fund, are considered non-major funds and are represented in a combined form.

Scott County adopts an annual appropriated budget for its major governmental funds except for the Public Properties Corporation Fund. A budgetary comparison statement has been provided for each of these funds to demonstrate compliance with their budgets.

Proprietary Funds. Proprietary funds provide the same type of information as the business-type activities column on the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Jail Canteen Fund.

Fiduciary Funds. Scott County has one fiduciary fund. The Jail Canteen Inmate Fund is used to account for monies held by the county for a custodial purpose only.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

**Scott County Fiscal Court
Management's Discussion and Analysis
June 30, 2005
(Continued)**

Government-wide Financial Analysis.

Net Assets. As noted earlier, net assets may serve over time as a useful indicator of a government's financial position.

**Table 1
Scott County's Net Assets**

	Governmental Activities		Business-Type Activities		Total	
	2004	2005	2004	2005	2004	2005
Assets						
Current and other assets	\$ 21,162,691	\$ 24,103,094	\$ 6,868	\$ 6,471	\$ 21,169,559	\$ 24,109,565
Capital assets	33,895,946	36,968,209			33,895,946	36,968,209
Total Assets	55,058,637	61,071,303	6,868	6,471	55,065,505	61,077,774
Liabilities						
Current and other liabilities	345,000	360,000			345,000	360,000
Long-term liabilities	1,985,000	1,625,000			1,985,000	1,625,000
Total Liabilities	2,330,000	1,985,000			2,330,000	1,985,000
Net Assets						
Invested in capital assets, net of related debt	31,565,946	34,983,209			31,565,946	34,983,209
Restricted For:						
Nonexpendable	82,875	82,426			82,875	82,426
Expendable	1,712	1,118			1,712	1,118
Unrestricted	21,078,104	24,019,550	6,868	6,471	21,084,972	24,026,021
Total Net Assets	\$ 52,728,637	\$ 59,086,303	\$ 6,868	\$ 6,471	\$ 52,735,505	\$ 59,092,774

Table 2

	Governmental Activities		Percent Change
	2004	2005	
Revenues:			
General Revenue	\$ 18,860,680	\$ 25,199,402	34%
Charges For Services	1,032,194	1,305,181	26%
Operating Grants and Contributions	3,896,265	1,847,806	-53%
Total Revenues	23,789,139	28,352,389	19%
Expenditures:			
General Government	8,106,176	9,928,453	22%
Protection to Persons and Property	5,671,666	6,418,211	13%
General Health and Sanitation	539,939	17,258	-97%
Social Services	397,572	478,965	20%
Recreation and Culture	1,370,154	1,941,988	42%
Roads	2,949,761	2,341,911	-21%
Interest on Long-Term Debt	125,490	110,151	-12%
Capital Projects	2,210,982	1,433,439	-35%
Total Expenses	\$ 21,371,740	\$ 22,670,376	6%

**Scott County Fiscal Court
Management's Discussion and Analysis
June 30, 2005
(Continued)**

Changes in Net Assets.

Governmental Activities. Scott County's net assets increased by \$6,357,666 in fiscal year 2005. Key elements of this are as follows:

- Current assets and cash increased \$2,940,403.
- Investment in capital assets, net of related debt increased \$3,417,263.
- Current and long-term liabilities decreased by \$345,000.
- Revenues were \$28,352,389 as reflected in the Statement of Activities.
- Expenditures totaled \$22,670,376 as reflected in the Statement of Activities.

Business-type Activities. Scott County's net assets decreased by \$397 in fiscal year 2005. Key elements of this are as follows:

- Current assets and cash decreased by \$397.

Financial Analysis of the County's Funds.

As noted earlier, Scott County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds Overview. The focus of Scott County's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the County's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the June 30, 2005 fiscal year, the combined ending fund balance of Scott County's governmental funds was \$24,103,094. Approximately 99% (\$24,020,668) of this consists of unreserved fund balance, which is available as working capital and for current spending in accordance with the purposes of the specific funds. The remainder of fund balance (\$82,426) is reserved to indicate that it is not available for new spending because it is committed.

The County has 7 governmental funds. These are: 1) General Fund; 2) Road Fund; 3) Jail Fund; 4) Local Government Economic Assistance Fund; 5) Hospital Fund; 6) McCracken Trust Fund 7) Public Properties Corporation Fund.

1. The General Fund is the chief operating fund of Scott County. At the end of the June 30, 2005 fiscal year, unreserved fund balance of the General Fund was \$22,481,219, while total fund balance was \$22,481,219. The county received \$10,831,473 in Occupational tax revenues and \$7,737,362 in Net Profit tax revenues. This accounts for approximately 69% of the general fund revenue. \$1,480,677 was received from real and personal property taxes and accounts for approximately 5% of the county's general fund revenues.

**Scott County Fiscal Court
Management's Discussion and Analysis
June 30, 2005
(Continued)**

Financial Analysis of the County's Funds. (Continued)

2. The Road Fund is the fund related to county road and bridge construction and maintenance. The Road Fund collected \$944,006 in revenue and received \$2,050,000 from the General Fund. The Road Fund had a prior year surplus carry over amount of \$105,486, for a total operating budget of \$3,099,492. There were expenses of \$2,744,339 leaving a year-end balance of \$355,153. The main expenses in the Road Fund were road resurfacing and repair totaling \$1,018,933. Salaries and benefits totaled another one million plus dollars. As we look into the future, the county must be aware of the many new subdivisions that are now becoming a part of the county maintained road system. Also, as with any other department, the continued cost of the benefit package of its employees will continue to rise.
3. The Jail Fund is used to account for the operation of the County's detention program. The Jail Fund received \$473,128 in revenue generated from its operations and \$2,120,000 was transferred in from the General Fund. The Jail Fund had a prior year surplus carry over amount of \$42,234, for a total operating budget of \$2,635,362. There were expenses of \$2,077,721 and transferred \$54,632 to other funds leaving a year-end balance of \$503,009.
4. The Local Government Economic Assistance (LGEA) Fund received \$144,535 during the fiscal year and had a prior year surplus carry over balance of \$212,496. There were expenses of \$80,966, leaving a year-end balance of \$276,065. Money in this fund is used to pay for road improvements.
5. The Hospital Fund is used to pay for medicine and pauper burials for needy families. The revenue in this fund is generated from interest on money received from the sale of the old county owned hospital. During fiscal year 2005, there was \$6,885 in interest earned. Claims for the year totaled \$23,198. Carry over money allowed this fund to absorb the deficit, but continued deficits will not permit this to continue for more than one year. Funds would then need to be transferred from the General Fund or else these benefits would have to be reduced.
6. The McCracken Trust Fund is used to pay for care for the indigent. The revenue for this fund is generated from interest earned on money left in a trust for this purpose. During fiscal year 2005, there was \$1,697 in interest earned. Claims for the year totaled \$2,740. Carry over money allowed this fund to absorb the deficit. This fund must also be cautiously monitored so as not to spend the entire balance thus reducing the benefits to indigent citizens for which this trust was set up to provide for.
7. The Public Properties Corporation Fund is used to pay the debt service payments for the Series 1997 Refunding Issue. Transfers are made from the General Fund and the Jail Fund to the Public Properties Corporation Fund for the payments to then be made by the third party trustee.

**Scott County Fiscal Court
Management's Discussion and Analysis
June 30, 2005
(Continued)**

Financial Analysis of the County's Funds. (Continued)

Proprietary Funds Overview. The County's proprietary fund statements provide the same type of information found in the business-type activities column of the government-wide statements.

Scott County has one enterprise fund, the Jail Canteen Fund. The Jail Canteen Fund had net assets of \$6,471 as of June 30, 2005 and a cash balance of \$6,471.

General Fund Budgetary Highlights.

Actual operating revenues were \$10,935,438 more than amount originally budgeted by Fiscal Court. This increase was primarily from Intergovernmental sources and tax revenues.

Actual operating expenditures were \$5,808,115 less than amount originally budgeted by Fiscal Court.

Capital Assets and Debt Administration.

Capital Assets. Scott County's investment in capital assets for its government and business type activities as of June 30, 2005, amounts to \$36,968,209 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements to land other than buildings, machinery and equipment, vehicles and infrastructure. The County has elected to report infrastructure assets per GASB 34 provisions.

Major capital asset events during the 2005 fiscal year included the completion of three new fire stations, renovations to the Sheriff's office, and the purchase of a building for the County Attorney. Additional information on the County's capital assets can be found in Note 3 of this report.

**Table 3
Scott County's Capital Assets, Net of Accumulated Depreciation**

	Governmental Activities		Business-Type Activities		Total	
	2004	2005	2004	2005	2004	2005
Infrastructure Assets	\$ 12,875,189	\$ 12,851,081	\$	\$	\$ 12,875,189	\$ 12,851,081
Land	4,319,833	4,474,833			4,319,833	4,474,833
Buildings and Improvements	13,658,687	15,571,448			13,658,687	15,571,448
Other Equipment	1,449,794	1,936,344			1,449,794	1,936,344
Vehicles and Equipment	1,592,443	2,134,503			1,592,443	2,134,503
Total Net Capital Assets	<u>\$ 33,895,946</u>	<u>\$ 36,968,209</u>	<u>\$</u>	<u>\$</u>	<u>\$ 33,895,946</u>	<u>\$ 36,968,209</u>

Long-Term Debt. At the end of the 2005 fiscal year, Scott County had total long-term debt principal outstanding of \$1,985,000. The amount of this debt due within the next year is \$360,000 and \$1,625,000 is due in subsequent years. This debt is described in note 4 of the notes to the financial statements.

**Scott County Fiscal Court
Management's Discussion and Analysis
June 30, 2005
(Continued)**

Other matters.

We must not mistake our carry over balance to be such that we cannot get into financial difficulties if we are not cautious. There are several large public property improvements facing the county over the next five years. They include the development of the newly purchased Taylor property, the joint funding of the swimming pool with the City of Georgetown, and possible funding for the Bradshaw property. These projects need to be phased in over a period of years so as not to cause a strain on the budget. One other major project that faces the county in the near future is the funding of the reservoir and pipeline back to the city.

The county will be increasing the number of emergency service personnel in the upcoming year with the addition of three new fully staffed fire stations plus an additional ambulance station and additional deputies in the sheriff's office. These increases are brought on by the large increase in the county's population and demands from the residents for more services. Additional trends that will become factors in the future are the cost of health insurance increasing by nearly 20% each year and the projected cost of hazardous duty retirement that will be increased to 32% next year.

Projections indicate that the county may need to dip well into its reserve during the 2005-2006 fiscal year for the purchase of land for a park totaling over 2.1 million dollars. The county is also obligated for over 2.5 million dollars for the joint funding of a new swimming pool with the City of Georgetown.

Other large capital projects expenses include the completion of three fire stations and the final payment of the Stamping Ground ambulance building. There is also the possibility of developing the Bradshaw property as a park, which would be in excess of one million dollars. The county has also agreed to finance part of the cost of transferring the Stamping Ground Water Company to the City of Georgetown. This is projected to cost about \$450,000. These expenses are in addition to the normal cost of running the county government and the expected cost of living expenses for salary raises for employees.

It has been the policy of the Scott County Fiscal Court to complete its capital projects on a cash basis for the past 15 years. With the completion of the water line extensions throughout the county and the repair of all the substandard bridges, we have eliminated an expense that will not be recurring. In the upcoming year, the county will have built or updated all emergency buildings. These improvements should not require any major capital expenditures for the next decade.

The cost of housing prisoners continues to be a drain on the General Fund budget with the major expenses not keeping pace with income. Although the state has added a few dollars to the cost of housing state inmates, it does not take into account the time served prior to being convicted, thus leaving the county responsible for a large part of this cost. Scott County is still in a position to offset the cost of housing these inmates, but as costs continue to grow, this will be a major problem in the near future.

As we look to the future, it is of utmost importance to be aware of the cost of recurring expenses in the number of county employees. As long as the budget will allow, we will continue to fund the insurance cost at the present level.

**Scott County Fiscal Court
Management's Discussion and Analysis
June 30, 2005
(Continued)**

Requests For Information

This financial report is designed to provide a general overview of Scott County's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this or requests for additional financial information should be addressed to the Scott County Treasurer, PO Box 973, Georgetown, KY 40324.

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SCOTT COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2005

SCOTT COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2005

	Primary Government		
	Governmental	Business-Type	
	Activities	Activities	Totals
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 24,103,094	\$ 6,471	\$ 24,109,565
Total Current Assets	24,103,094	6,471	24,109,565
Noncurrent Assets:			
Depreciation			
Land and Land Improvements	4,474,833		4,474,833
Buildings	15,571,448		15,571,448
Other Equipment	1,936,344		1,936,344
Vehicles and Equipment	2,134,503		2,134,503
Infrastructure Assets - Net			
of Depreciation	12,851,081		12,851,081
Total Noncurrent Assets	36,968,209		36,968,209
Total Assets	61,071,303	6,471	61,077,774
LIABILITIES			
Current Liabilities:			
Revenue Bonds Payable	360,000		360,000
Total Current Liabilities	360,000		360,000
Noncurrent Liabilities:			
Revenue Bonds Payable	1,625,000		1,625,000
Total Noncurrent Liabilities	1,625,000		1,625,000
Total Liabilities	1,985,000		1,985,000
NET ASSETS			
Invested in Capital Assets,			
Net of Related Debt	34,983,209		34,983,209
Restricted For:			
Indigent Care-Nonexpendable	82,426		82,426
Indigent Care-Expendable	1,118		1,118
Unrestricted	24,019,550	6,471	24,026,021
Total Net Assets	\$ 59,086,303	\$ 6,471	\$ 59,092,774

The accompanying notes are an integral part of the financial statements.

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SCOTT COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2005

SCOTT COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

Functions/Programs Reporting Entity	Expenses	Program Revenues Received		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 9,928,453	\$ 539,070	\$ 227,388	\$
Protection to Persons and Property	6,418,211	694,604	558,862	
General Health and Sanitation	17,258	71,507		
Social Services	478,965			
Recreation and Culture	1,941,988			
Roads	2,341,911		1,061,556	
Interest on Long-Term Debt	110,151			
Capital Projects	1,433,439			
Total Governmental Activities	22,670,376	1,305,181	1,847,806	
Business-type Activities:				
Jail Canteen	30,546	28,345	1,804	
Total Business-type Activities	30,546	28,345	1,804	
Total Primary Government	\$ 22,700,922	\$ 1,333,526	\$ 1,849,610	\$ 0

General Revenues:

Taxes:
 Real Property Taxes
 Personal Property Taxes
 Motor Vehicle Taxes
 Other Taxes
 Excess Fees
 Miscellaneous Revenues
 Accrued Interest Received

 Total General Revenues
 Change in Net Assets
 Net Assets - Beginning (Restated)

 Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

SCOTT COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2005
(Continued)

Net (Expenses) Revenues and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-Type Activities	Totals
\$ (9,161,995)	\$	\$ (9,161,995)
(5,164,745)		(5,164,745)
54,249		54,249
(478,965)		(478,965)
(1,941,988)		(1,941,988)
(1,280,355)		(1,280,355)
(110,151)		(110,151)
(1,433,439)		(1,433,439)
(19,517,389)		(19,517,389)
	(397)	(397)
	(397)	(397)
(19,517,389)	(397)	(19,517,786)

1,478,085		1,478,085
2,592		2,592
373,417		373,417
19,108,926		19,108,926
1,733,436		1,733,436
2,140,775		2,140,775
362,171		362,171
25,199,402		25,199,402
5,682,013	(397)	5,681,616
53,404,290	6,868	53,411,158
\$ 59,086,303	\$ 6,471	\$ 59,092,774

The accompanying notes are an integral part of the financial statements.

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SCOTT COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2005

SCOTT COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2005

	<u>General Fund</u>	<u>Road Fund</u>	<u>Jail Fund</u>
ASSETS			
Cash and Cash Equivalents	\$ 22,481,219	\$ 355,153	\$ 503,009
Total Assets	<u>\$ 22,481,219</u>	<u>\$ 355,153</u>	<u>\$ 503,009</u>
FUND BALANCES			
Reserved for:			
Permanent Care-Indigent Care	\$	\$	\$
Unreserved:			
General Fund	22,481,219		
Special Revenue Fund		355,153	503,009
Permanent Fund			
Total Fund Balances	<u>\$ 22,481,219</u>	<u>\$ 355,153</u>	<u>\$ 503,009</u>

The accompanying notes are an integral part of the financial statements.

SCOTT COUNTY

BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2005

(Continued)

Non- Major Funds	Total Governmental Funds
<u> </u>	<u> </u>
\$ 763,713	\$ 24,103,094
<u>\$ 763,713</u>	<u>\$ 24,103,094</u>

\$ 82,426	\$ 82,426
	22,481,219
680,169	1,538,331
<u>1,118</u>	<u>1,118</u>
<u>\$ 763,713</u>	<u>\$ 24,103,094</u>

Reconciliation to Statement of Changes In Net Assets:

Total Fund Balances	\$ 24,103,094
Amounts Reported For Governmental Activities In The Statement Of Net Assets Are Different Because:	
Capital Assets Used in Governmental Activities Are Not Financial Resources And Therefore Are Not Reported in the Funds.	54,482,016
Depreciation	(17,513,807)
Long-term debt is not due and payable in the current period and, therefore, is not reported in the funds.	
Bonded Debt	<u>(1,985,000)</u>
Net Assets Of Governmental Activities	<u>\$ 59,086,303</u>

The accompanying notes are an integral part of the financial statements.

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SCOTT COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

SCOTT COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

	General Fund	Road Fund	Jail Fund	Public Properties Corporation Fund
REVENUES				
Taxes	\$ 20,914,639	\$	\$	\$
Excess Fees	841,048			
Licenses and Permits	427,110			
Intergovernmental	1,762,229	920,384	413,795	
Charges for Services	442,657		41,579	
Miscellaneous	2,046,577	21,254	17,754	
Interest	347,878	2,368		
Total Revenues	<u>26,782,138</u>	<u>944,006</u>	<u>473,128</u>	
EXPENDITURES				
General Government	5,590,867			
Protection to Persons and Property	6,457,765		1,531,724	
General Health and Sanitation	544,000			
Social Services	453,027			
Recreation and Culture	1,821,463			
Roads		2,233,307		
Debt Service	596			454,555
Capital Projects	1,396,346	37,093		
Administration	3,764,403	473,939	545,997	
Total Expenditures	<u>20,028,467</u>	<u>2,744,339</u>	<u>2,077,721</u>	<u>454,555</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>6,753,671</u>	<u>(1,800,333)</u>	<u>(1,604,593)</u>	<u>(454,555)</u>
Other Financing Sources (Uses)				
Transfers From Other Funds		2,050,000	2,120,000	454,410
Transfers To Other Funds	(4,569,778)		(54,632)	
Total Other Financing Sources (Uses)	<u>(4,569,778)</u>	<u>2,050,000</u>	<u>2,065,368</u>	<u>454,410</u>
Net Change in Fund Balances	2,183,893	249,667	460,775	(145)
Fund Balances - Beginning	20,297,326	105,486	42,234	145
Fund Balances - Ending	<u>\$ 22,481,219</u>	<u>\$ 355,153</u>	<u>\$ 503,009</u>	<u>\$ 0</u>

The accompanying notes are an integral part of the financial statements.

SCOTT COUNTY
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
For The Year Ended June 30, 2005
(Continued)

Non- Major Funds	Total Governmental Funds
\$	\$ 20,914,639
	841,048
	427,110
141,172	3,237,580
	484,236
20	2,085,605
11,925	362,171
<u>153,117</u>	<u>28,352,389</u>
	5,590,867
	7,989,489
	544,000
25,938	478,965
	1,821,463
80,966	2,314,273
	455,151
	1,433,439
	4,784,339
<u>106,904</u>	<u>25,411,986</u>
<u>46,213</u>	<u>2,940,403</u>
	4,624,410
	<u>(4,624,410)</u>
46,213	2,940,403
717,500	21,162,691
<u>\$ 763,713</u>	<u>\$ 24,103,094</u>

The accompanying notes are an integral part of the financial statements.

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**SCOTT COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

For The Year Ended June 30, 2005

SCOTT COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

Reconciliation to the Statement of Activities:

Net Change in Fund Balances - Total Governmental Funds	\$ 2,940,403
--	--------------

Amounts Reported for Governmental Activities in the Statement of Activities Are Different Because Governmental Funds Report Capital Outlays as Expenditures. However, in the Statement of Activities the Cost of those Assets is allocated Over their Estimated Useful Lives and Reported as Depreciation Expense.

Capital Outlay	4,293,975
----------------	-----------

Depreciation Expense Including \$52,684 from Loss on Disposal Of Capital As: Lease and Bond Principal Payments Are Expensed in the Governmental Funds as a Use of Current Financial Resources.	(1,897,365)
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Bond Payments	345,000
---------------	---------

Change in Net Assets of Governmental Activities	\$ 5,682,013
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The accompanying notes are an integral part of the financial statements.

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SCOTT COUNTY
STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2005

SCOTT COUNTY
STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2005

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Assets	
Current Assets:	
Cash and Cash Equivalents	\$ 6,471
Total Assets	<u>6,471</u>
Net Assets	
Unrestricted	6,471
Total Net Assets	<u><u>\$ 6,471</u></u>

The accompanying notes are an integral part of the financial statements.

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SCOTT COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

SCOTT COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Operating Revenues	
Canteen Receipts	\$ 10,308
Inmate Receipts	18,037
Total Operating Revenues	<u>28,345</u>
Operating Expenses	
Educational and Recreational	7,169
Personnel Costs	3,850
Inmate Payments	19,527
Total Operating Expenses	<u>30,546</u>
Operating Loss	<u>(2,201)</u>
Nonoperating Revenues (Expenses)	
Inmate Pay From State	1,804
Total Nonoperating Revenues (Expenses)	<u>1,804</u>
Change In Net Assets	(397)
Total Net Assets - Beginning	<u>6,868</u>
Total Net Assets - Ending	<u><u>\$ 6,471</u></u>

The accompanying notes are an integral part of the financial statements.

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SCOTT COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS
For The Year Ended June 30, 2005

SCOTT COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Cash Flows From Operating Activities	
Receipts From Customers	\$ 10,308
Receipts From Inmates	18,037
Payments To Suppliers	(7,169)
Payments To Employees	(3,850)
Payments To Inmates	(19,527)
Net Cash Used By Operating Activities	(2,201)
Cash Flows From Noncapital Financing Activities	
Inmate Pay From State	1,804
Net Cash Provided By Noncapital Financing Activities	1,804
Net Decrease in Cash and Cash Equivalents	(397)
Cash and Cash Equivalents - July 1	6,868
Cash and Cash Equivalents - June 30	\$ 6,471
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities	
Operating Loss	\$ (2,201)
Net Cash Used By Operating Activities	\$ (2,201)

The accompanying notes are an integral part of the financial statements.

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SCOTT COUNTY
STATEMENT OF FIDUCIARY NET ASSETS - FIDUCIARY FUND - MODIFIED CASH BASIS

June 30, 2005

SCOTT COUNTY
STATEMENT OF FIDUCIARY NET ASSETS - FIDUCIARY FUND - MODIFIED CASH BASIS

June 30, 2005

	<u>Agency Fund</u>
	<u>Jail Inmate Account</u>
Assets	
Current Assets:	
Cash and Cash Equivalents	\$ 7,212
Total Assets	<u><u>\$ 7,212</u></u>
Liabilities	
Amounts Held In Custody For Others	\$ 7,212
Total Liabilities	<u><u>\$ 7,212</u></u>

The accompanying notes are an integral part of the financial statements.

**INDEX FOR NOTES
TO THE FINANCIAL STATEMENTS**

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SCOTT COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2005

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county presents its government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Notes receivable are recognized on the Statement of Net Assets, but notes receivable are not included and recognized on Balance Sheet - Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Scott County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. All other component units are discretely presented.

Blended Component Units

The following legally separate organizations provide their services exclusively to the primary government, and the fiscal court is able to impose its will on this organization. These organizations' balances and transactions are reported as though they are part of the county's primary government using the blending method.

Scott County Public Properties Corporation

The Scott County Public Properties Corporation is established for the purpose of providing long-term financing for approved projects. The Scott County Fiscal Court is financially accountable for the component unit as part of the reporting entity and its financial activity is blended with that of the fiscal court.

SCOTT COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Scott County Elected Officials Not Part Of Scott County, Kentucky

Kentucky law provides for election of the officials below from the geographic area constituting Scott County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Scott County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

D. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services. Fiduciary funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

SCOTT COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

Governmental Funds

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Governor's Office for Local Development requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck licenses distribution, municipal road aid, and transportation grants. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of revenue for this fund are reimbursements from the state and federal government, payments from other counties for housing prisoners, and transfers from the General Fund. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Public Properties Corporation Fund – This fund is for the accumulation of resources for, and the payment of general long-term debt principal and interest.

The primary government also has the following non-major governmental funds: Local Government Economic Assistance Fund, McCracken Trust Fund, and the Hospital Fund. The Local Government Economic Assistance Fund and the Hospital Fund are Special Revenue Funds and the McCracken Trust Fund is a Permanent Fund. These funds are used to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

Generally, and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) September 15, due at discount November 1, due at face value December 31, delinquent January 1 following the assessment, and subject to lien and sale February 1 following the delinquency date.

SCOTT COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Proprietary Funds

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the county's enterprise funds are charges to customers for sales in the Jail Canteen Fund. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. The government has elected not to adopt Financial Accounting Standards Board (FASB) Statements or Interpretations issued after November 30, 1989, unless the Government Accounting Standards Board (GASB) specifically adopts such FASB Statements of Interpretations.

The primary government reports the following major proprietary fund:

Jail Canteen Fund - The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen Fund.

Fiduciary Funds

Fiduciary funds report only those resources held in a trust or custodial capacity for individuals, private organizations, or other governments. The county's agency fund is used to account for monies held by the county in the Jail Canteen Inmate Account for custodial purposes only. Unlike other funds, the agency fund reports assets and liabilities only; therefore, it has no measurement focus.

The primary government reports the following fiduciary fund:

Jail Canteen Inmate Account - This fund accounts for funds received from prisoners upon arrival at the Detention Center and remitted to the prisoners upon release.

E. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

SCOTT COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

F. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 5,000	20-25
Buildings and Building Improvements	\$ 5,000	10-60
Machinery and Equipment	\$ 5,000	3-25
Vehicles	\$ 5,000	3-12
Infrastructure	\$ 5,000	20-40

G. Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

SCOTT COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

H. Fund Equity (Continued)

The McCracken Trust Fund was established by the will of John C. McCracken in 1835. The will imposed that the fund be held in perpetuity and that one-third of the proceeds and profits be used to increase and augment the principal. The remaining two-thirds of the proceeds and profits were to be used at the Fiscal Court's discretion to alleviate the misfortunes and bettering the conditions of poor and indigent persons.

I. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer. Formal budgets are not adopted for the Public Properties Corporation Fund, the Jail Canteen Fund, and the Jail Canteen Inmate Agency Fund.

The State Local Finance Officer does not require the Public Properties Corporation Fund to be budgeted. Bond indentures and other relevant contractual provisions require specific annual payments to these funds and these transfers are budgeted in the governmental funds.

The State Local Finance Officer does not require the Jail Canteen Fund and the Jail Canteen Inmate Agency Fund to be budgeted because the fiscal court does not approve the expenses made from these funds.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

SCOTT COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

J. Related Organizations, Joint Venture, and Jointly Governed Organizations

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, the following are considered related organizations of Scott County Fiscal Court: Georgetown-Scott County Tourism and the Scott County Public Library.

A legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility is a joint venture. Based upon these criteria, the following is considered a joint venture of the Scott County Fiscal Court: Park and Recreation and Planning and Zoning.

Note 2. Deposits

The primary government and component units maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a depository institution failure, the county's deposits may not be returned to it. The county does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). However, as of June 30, 2005, the collateral and the FDIC insurance together did not equal or exceed the amount on deposit, leaving \$7,450 of public funds uninsured and unsecured.

The county's deposits are categorized below to give an indication of the level of risk assumed by the county as of June 30, 2005.

	<u>Bank Balance</u>
FDIC Insured	\$ 600,000
Collateralized with securities held by pledging depository institution in the county's name	23,815,893
Uncollateralized and uninsured	<u>7,450</u>
Total	<u><u>\$ 24,423,343</u></u>

SCOTT COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 3. Capital Assets

Capital asset activity for the year ended June 30, 2005 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
Primary Government:				
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land and Land Improvements	\$ 4,319,833	\$ 155,000	\$	\$ 4,474,833
Construction In Progress				
Total Capital Assets Not Being Depreciated	<u>4,319,833</u>	<u>155,000</u>		<u>4,474,833</u>
Capital Assets, Being Depreciated:				
Buildings	19,188,616	1,771,500		20,960,116
Other Equipment	2,712,546	633,464		3,346,010
Vehicles and Equipment	3,953,766	878,630	(118,277)	4,714,119
Infrastructure	<u>20,131,557</u>	<u>855,381</u>		<u>20,986,938</u>
Total Capital Assets Being Depreciated	45,986,485	4,138,975	(118,277)	50,007,183
Less Accumulated Depreciation For:				
Buildings	(4,976,936)	(411,732)		(5,388,668)
Other Equipment	(1,226,691)	(182,975)		(1,409,666)
Vehicles and Equipment	(2,367,519)	(277,690)	65,593	(2,579,616)
Infrastructure	<u>(7,163,573)</u>	<u>(972,284)</u>		<u>(8,135,857)</u>
Total Accumulated Depreciation	<u>(15,734,719)</u>	<u>(1,844,681)</u>	65,593	<u>(17,513,807)</u>
Total Capital Assets, Being Depreciated, Net	<u>30,251,766</u>	<u>2,294,294</u>	<u>(52,684)</u>	<u>32,493,376</u>
Governmental Activities Capital Assets, Net	\$ 34,571,599	\$ 2,449,294	\$ (52,684)	\$ 36,968,209

Depreciation expense was charged to functions of the primary government as follows:

<u>Governmental Activities:</u>	
General Government	\$ 164,244
Protection to Persons and Property	29,904
General Health and Sanitation	473,258
Recreation and Culture	125,825
Roads, Including Depreciation of General Infrastructure Assets	<u>1,051,450</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 1,844,681</u>

SCOTT COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 3. Capital Assets (Continued)

The Governmental Capital Assets, Net beginning balance of \$34,571,599 shown above is \$675,653 more than the Governmental Capital Assets, Net ending balance of \$33,895,946 shown in the prior year audit report. This difference is due to adjustments that were made to the beginning balance based on additional information received during the current year audit.

Note 4. Long-term Debt - Public Properties Corporation

In September 1997, the Scott County Public Properties Corporation Fund issued \$3,415,000 of revenue refunding bonds, series 1997. The bonds were issued for advance refunding of the outstanding 1990 bonds maturing on and after January 1, 2002 to 2010. Interest is payable semi-annually on January 1 and July 1 of each year, and principal payments are due on January 1 of each year in the amounts stated below. The total principal outstanding was \$1,985,000 as of June 30, 2005.

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2006	\$ 360,000	\$ 93,513
2007	380,000	76,593
2008	395,000	58,733
2009	415,000	40,168
2010	435,000	20,663
Totals	<u>\$ 1,985,000</u>	<u>\$ 289,670</u>

Long-term liability activity for the year ended June 30, 2005, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government:					
<u>Governmental Activities:</u>					
Revenue Bonds	\$ 2,330,000	\$	\$ 345,000	\$ 1,985,000	\$ 360,000
Governmental Activities					
Long-term Liabilities	<u>\$ 2,330,000</u>	<u>\$ 0</u>	<u>\$ 345,000</u>	<u>\$ 1,985,000</u>	<u>\$ 360,000</u>

SCOTT COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 5. Employee Retirement System

The fiscal court elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system, which covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 8.48 percent. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. The county's contribution rate for hazardous employees was 22.08 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 6. Deferred Compensation

The Scott County Fiscal Court voted to allow all eligible employees to participate in deferred compensation plans administered by The Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate.

These deferred compensation plans permits all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

Historical trend information showing The Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in The Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing Kentucky Public Employees' Deferred Compensation Authority at 105 Sea Hero Road, Suite 1, Frankfort, KY 40601-8862, or by telephone at (502) 573-7925.

Note 7. Insurance

For the fiscal year ended June 30, 2005, Scott County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

SCOTT COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 8. Estimated Infrastructure Historical Cost

Infrastructure historical cost prior to June 30, 2004 is an estimate. The primary government estimated the year infrastructure was built by determining when a major reconstruction had been done on infrastructure. Then current year construction cost was deflated back to this estimated year of construction or reconstruction to arrive at estimated historical cost. Infrastructure costs after June 30, 2004 are based on actual expenditures.

Note 9. Prior Period Adjustments

The Governmental Capital Assets, Net beginning balance of \$34,571,599 was restated to show an increase of \$675,653 for capital assets previously omitted in error.

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SCOTT COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2005

SCOTT COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2005

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 11,833,000	\$ 11,833,000	\$ 20,914,639	\$ 9,081,639
Excess Fees	610,000	610,000	841,048	231,048
Licenses and Permits	197,000	197,000	427,110	230,110
Intergovernmental Revenue	2,054,100	2,054,100	1,762,229	(291,871)
Charges for Services	349,000	349,000	442,657	93,657
Miscellaneous	524,600	524,600	2,046,577	1,521,977
Interest	279,000	279,000	347,878	68,878
Total Revenues	15,846,700	15,846,700	26,782,138	10,935,438
EXPENDITURES				
General Government	5,790,480	7,038,787	5,590,867	1,447,920
Protection to Persons and Property	6,296,662	7,170,664	6,457,765	712,899
General Health and Sanitation	589,917	604,986	544,000	60,986
Social Services	459,325	516,773	453,027	63,746
Recreation and Culture	3,718,890	3,198,890	1,821,463	1,377,427
Debt Service	6,222	6,222	596	5,626
Capital Projects	3,650,000	2,836,464	1,396,346	1,440,118
Administration	5,325,086	4,463,796	3,764,403	699,393
Total Expenditures	25,836,582	25,836,582	20,028,467	5,808,115
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(9,989,882)	(9,989,882)	6,753,671	16,743,553
OTHER FINANCING SOURCES (USES)				
Transfers To Other Funds	(5,510,118)	(5,510,118)	(4,569,778)	940,340
Total Other Financing Sources (Uses)	(5,510,118)	(5,510,118)	(4,569,778)	940,340
Net Changes in Fund Balance	(15,500,000)	(15,500,000)	2,183,893	17,683,893
Fund Balance - Beginning	15,500,000	15,500,000	20,297,326	4,797,326
Fund Balance - Ending	\$ 0	\$ 0	\$ 22,481,219	\$ 22,481,219

SCOTT COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2005
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 682,700	\$ 682,700	\$ 920,384	\$ 237,684
Miscellaneous	12,100	12,100	21,254	9,154
Interest	2,000	2,000	2,368	368
Total Revenues	696,800	696,800	944,006	247,206
EXPENDITURES				
Roads	2,861,008	2,941,008	2,233,307	707,701
Capital Projects	125,000	45,000	37,093	7,907
Administration	668,000	668,000	473,939	194,061
Total Expenditures	3,654,008	3,654,008	2,744,339	909,669
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(2,957,208)	(2,957,208)	(1,800,333)	1,156,875
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	2,957,208	2,957,208	2,050,000	(907,208)
Total Other Financing Sources (Uses)	2,957,208	2,957,208	2,050,000	(907,208)
Net Changes in Fund Balance			249,667	249,667
Fund Balance - Beginning			105,486	105,486
Fund Balance - Ending	\$ 0	\$ 0	\$ 355,153	\$ 355,153

SCOTT COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2005
(Continued)

JAIL FUND				
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
Intergovernmental Revenue	\$ 212,000	\$ 212,000	\$ 413,795	\$ 201,795
Charges for Services	25,000	25,000	41,579	16,579
Miscellaneous	24,100	24,100	17,754	(6,346)
Total Revenues	261,100	261,100	473,128	212,028
EXPENDITURES				
Protection to Persons and Property	1,658,732	1,674,032	1,531,724	142,308
Administration	699,500	684,200	545,997	138,203
Total Expenditures	2,358,232	2,358,232	2,077,721	280,511
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(2,097,132)	(2,097,132)	(1,604,593)	492,539
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	2,153,132	2,153,132	2,120,000	(33,132)
Transfers To Other Funds	(56,000)	(56,000)	(54,632)	1,368
Total Other Financing Sources (Uses)	2,097,132	2,097,132	2,065,368	(31,764)
Net Changes in Fund Balance			460,775	460,775
Fund Balance - Beginning			42,234	42,234
Fund Balance - Ending	\$ 0	\$ 0	\$ 503,009	\$ 503,009

SCOTT COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2005

Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

**SCOTT COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information**

June 30, 2005

SCOTT COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2005

	LGEA Fund	McCracken Trust Fund	Hospital Fund	Total Non-Major Governmental Funds
ASSETS				
Cash and Cash Equivalents	\$ 276,065	\$ 83,544	\$ 404,104	\$ 763,713
Total Assets	<u>\$ 276,065</u>	<u>\$ 83,544</u>	<u>\$ 404,104</u>	<u>\$ 763,713</u>
FUND BALANCES				
Reserved For:				
Permanent Fund-Indigent Care	\$	\$ 82,426	\$	\$ 82,426
Unreserved:				
Permanent Fund		1,118		1,118
Special Revenue Funds	<u>276,065</u>	<u></u>	<u>404,104</u>	<u>680,169</u>
Total Fund Balances	<u>\$ 276,065</u>	<u>\$ 83,544</u>	<u>\$ 404,104</u>	<u>\$ 763,713</u>

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SCOTT COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2005

SCOTT COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2005

	LGEA Fund	McCracken Trust Fund	Hospital Fund	Total Non-Major Governmental Funds
REVENUES				
Intergovernmental	\$ 141,172	\$	\$	\$ 141,172
Miscellaneous		20		20
Interest	3,363	1,677	6,885	11,925
Total Revenues	<u>144,535</u>	<u>1,697</u>	<u>6,885</u>	<u>153,117</u>
EXPENDITURES				
Social Services		2,740	23,198	25,938
Roads	80,966			80,966
Total Expenditures	<u>80,966</u>	<u>2,740</u>	<u>23,198</u>	<u>106,904</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>63,569</u>	<u>(1,043)</u>	<u>(16,313)</u>	<u>46,213</u>
Net Change in Fund Balances	63,569	(1,043)	(16,313)	46,213
Fund Balances - Beginning	212,496	84,587	420,417	717,500
Fund Balances - Ending	<u>\$ 276,065</u>	<u>\$ 83,544</u>	<u>\$ 404,104</u>	<u>\$ 763,713</u>

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SCOTT COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2005

**SCOTT COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

Fiscal Year Ended June 30, 2005

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of Scott County, Kentucky.
2. No reportable conditions relating to the internal control of the audit of the financial statements are reported in the Independent Auditor's Report.
3. No instances of noncompliance material to the financial statements of Scott County were disclosed during the audit.
4. No reportable conditions relating to the audit of the major federal awards programs are reported in the Independent Auditor's Report.
5. The auditor's report on compliance for the audit of the major federal awards programs for Scott County expresses an unqualified opinion.
6. There are no audit findings relative to the major federal awards programs for Scott County reported in Part C of this schedule.
7. The program tested as a major program was: Assistance to Firefighters (CFDA 97.044)
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. Scott County was not determined to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENT AUDIT

STATE LAWS AND REGULATIONS

None.

REPORTABLE CONDITIONS

None.

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT

None

D. PRIOR YEAR FINDINGS

None

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SCOTT COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

SCOTT COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Fiscal Year Ended June 30, 2005

Federal Grantor Program Title <u>Grant Name (CFDA #)</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
 Cash Programs :		
 <u>U.S. Department of Transportation</u>		
Passed-Through Kentucky Transportation Cabinet:		
Highway Planning and Construction- Historic Jail Complex (TEA-21) (CFDA 20.205)	C-02357922	\$ 24,433
 <u>U.S. Department of Commerce</u>		
Direct Program:		
Surveys, Studies, Investigations and Special Purpose Grants- Stamping Ground Water Tower Program (CFDA 66.606)	Not Available	133,124
 <u>U.S. Department of Homeland Security</u>		
Direct Program:		
Department of Homeland Security- Assistance to Firefighters (CFDA 97.044)	Not Available	618,195
 Passed-Through State Department of Military Affairs:		
Homeland Security Grant Program- Citizen Corp Program (CFDA 97.067)	M-04614008	510
		<hr/>
Total Cash Expenditures of Federal Awards		<u><u>\$ 776,262</u></u>

SCOTT COUNTY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2005

Note 1 - The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Scott County, Kentucky and is presented on a modified cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable George Lusby, Scott County Judge/Executive
Members of the Scott County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of Financial Statements
Performed In Accordance With Government Auditing Standards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Scott County, Kentucky, as of and for the year ended June 30, 2005, which collectively comprise the County's basic financial statements, as listed in the table of contents and have issued our report thereon dated December 22, 2005. Scott County presents its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Scott County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be a material weakness. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether Scott County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing opinions on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such opinions. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Report on Internal Control Over Financial Reporting and On
Compliance and Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

This report is intended solely for the information and use of management and the Governor's Office for Local Development and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Crit Luallen', with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
December 22, 2005

**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable George Lusby, Scott County Judge/Executive
Members of the Scott County Fiscal Court

Report On Compliance With Requirements
Applicable To Each Major Program And On Internal Control
Over Compliance In Accordance With OMB Circular A-133

Compliance

We have audited the compliance of Scott County, Kentucky, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2005. Scott County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Scott County's management. Our responsibility is to express an opinion on Scott County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Scott County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Scott County's compliance with those requirements.

In our opinion, Scott County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

The management of Scott County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Scott County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.



Report On Compliance With Requirements
Applicable To Each Major Program And On Internal Control
Over Compliance In Accordance With OMB Circular A-133
(Continued)

Internal Control Over Compliance (Continued)

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Crit Luallen', with a stylized, flowing script.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
December 22, 2005

**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

SCOTT COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2005**


CERTIFICATION OF COMPLIANCE


LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM

SCOTT COUNTY FISCAL COURT

Fiscal Year Ended June 30, 2005

The Scott County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Fund was expended for the purpose intended, as dictated by the applicable Kentucky Revised Statutes.


George Lusby
Judge Executive


Jane Lucas
County Treasurer